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Current Class: UNCLASSIFIED  
Current Handling: n/a  
Document Number: 2002BOGOTA06911

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Channel: n/a

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ACTION EB-00

RELEASED IN FULL

INFO	LOG-00	NP-00	AID-00	CEA-01	COME-00	CTME-00	INL-00
	DINT-00	ITCE-00	DOTE-00	WHA-00	SRPP-00	EXME-00	E-00
	FAAE-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
	ITC-01	LAB-01	L-00	VCE-00	AC-01	NSAE-00	OES-01
	OMB-01	OPIC-01	PM-00	PRS-00	ACE-00	SP-00	SSO-00
	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	EPAE-00	PMB-00
	DRL-02	G-00	NFAT-00	SAS-00	/010W		

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R 051356Z AUG 02 ZDK  
FM AMEMBASSY BOGOTA  
TO SECSTATE WASHDC 0161  
INFO OPEC COLLECTIVE  
AMEMBASSY BRASILIA  
AMEMBASSY CARACAS  
AMEMBASSY LIMA  
AMEMBASSY PANAMA  
AMEMBASSY QUITO  
CIA WASHDC  
JOINT STAFF WASHDC  
NSC WASHDC  
USCINCSO MIAMI FL  
SECDEF WASHDC  
DOE HQS FORRESTAL BLDG WASHINGTON DC

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E.O. 12958: N/A

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TAGS: ENRG, EPET, ECON, CO  
SUBJECT: COLOMBIA GETS NEW PETROLEUM ROYALTY LAW

REF: A. BOGOTA 4839  
B. AND OTHER REPORTING

1. COLOMBIAN PRESIDENT ANDRES PASTRANA SIGNED A NEW ROYALTY LAW FOR THE PETROLEUM SECTOR ON JULY 25. IT IS HOPED THAT THE NEW LAW WILL BOOST PETROLEUM EXPLORATION AND PRODUCTION IN COLOMBIA. THE LAW, WHICH REPLACES AN EARLIER VERSION STRUCK DOWN FOR TECHNICAL REASONS, CREATES A SLIDING SCALE FOR ROYALTIES. UNDER THE SCHEME FIELDS WITH SMALLER RESERVES

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UNITED STATES DEPARTMENT OF STATE  
REVIEW AUTHORITY: WILLIAM E LANDFAIR  
DATE/CASE ID: 14 JAN 2004 200203418

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PAY LOWER ROYALTIES THAN LARGER FIELDS, THUS PROVIDING INCENTIVES TO PRODUCERS TO DEVELOP SMALLER, PREVIOUSLY UNPROFITABLE FIELDS. THE OLD ROYALTY SCHEME TOOK A STRAIGHT 20 PERCENT CUT OFF THE TOP, WHILE THE NEW ROYALTIES RANGE FROM EIGHT TO TWENTY-FIVE PERCENT.

2. DESPITE HAVING BEEN PREVIOUSLY PASSED THE LAW WENT THROUGH A MORE DIFFICULT THAN EXPECTED DEBATE IN CONGRESS. REPRESENTATIVES FROM OIL PRODUCING REGIONS WERE CONCERNED THAT THEIR DEPARTMENTS WOULD RECEIVE LOWER ROYALTY TRANSFERS UNDER THE NEW SCHEME. HOWEVER, THE OPPOSING ARGUMENT THAT IT IS BETTER TO GET EIGHT PERCENT OF SOMETHING THAN ZERO PERCENT OF NOTHING FINALLY CARRIED THE DAY. THE NEW LAW ALSO RESTRUCTURED THE DISTRIBUTION OF ROYALTIES SO THAT REGIONAL AND MUNICIPAL GOVERNMENTS RECEIVE A BIGGER CUT AND THE NATIONAL GOVERNMENT LESS. AFTER THE FIRST LAW WAS PASSED ECOPETROL SAW A SIGNIFICANT JUMP IN CONTRACTS FOR NEW EXPLORATION (REF A). ECOPETROL WAS ALLOWED BY THE COURT THAT STRUCK DOWN THE ORIGINAL LAW TO KEEP SIGNING CONTRACTS FOR

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ONE YEAR UNTIL JUNE 2002. HAD THE NEW ROYALTY LAW NOT BEEN SIGNED THESE CONTRACTS WOULD HAVE BEEN THROWN OUT AND ECOPETROL WOULD HAVE FACED A SERIOUS CHALLENGE JUMPSTARTING NEW EXPLORATION UNDER THE OLD 20 PERCENT REGIME.

3. EVEN WITH THE NEW LAW SOME ANALYSTS BELIEVE THAT A STILL HIGH "GOVERNMENT TAKE," COMBINED WITH THE UNCERTAIN SECURITY SITUATION, MAY HURT COLOMBIA'S CHANCES TO FIND THE NEW OIL IT DESPARATELY NEEDS TO FORESTALL AN OIL SHORTFALL BY THE END OF THE DECADE.  
PATTERSON

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